

PHILIPPINES ECONOMIC WRAP-UP

JUNE 17-23, 2000

----- **Summary** -----

This week we review the status of the government's finances and fiscal balance. A meeting with international aid donors gave the government a chance to outline its development priorities and address donors' concerns (and collect \$2.6 billion in pledges). The government, still licking its wounds from the failed bidding for its PNB shares, is working on new plans to sell its 30% stake in the troubled bank. We report on plans for commercial banks to help provide liquidity to investment houses, and a few other bank notes.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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----- **Market and Policy Developments** -----

FOREX REPORT -----

The Philippine peso sank this week as the Bangko Sentral ng Pilipinas (BSP, the central bank) issued new instructions for banks to report all forex transactions of more than \$250,000. Banks must report the buyers and/or sellers of currency, or risk fines of P30,000/day (about \$715) for non-compliance. BSP Governor Raphael Buenaventura denied that the move constituted or presaged the imposition of capital controls. He said the goal was to ensure only "legitimate clients" are doing business in forex markets. The BSP frequently blames "speculators" when the peso falls, but credits "strong fundamentals" when the currency rises. The peso ended the week at P42.845/US\$, down from its June 16 close of P42.595/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAY 15	41.589	41.560	135.5
16	41.613	41.630	86.6
17	41.662	41.665	145.5
18	41.727	41.730	183.0
19	41.682	41.670	103.9
MAY 22	41.801	41.915	157.7
23	42.158	42.370	161.5
24	42.749	42.740	119.3
25	43.159	43.400	206.7
26	42.976	42.720	170.7
MAY 29	42.649	42.710	163.7
30	42.829	42.750	92.4
31	42.649	42.620	146.5
JUN 01	42.633	42.580	104.5
02	42.465	42.465	113.1
JUN 05	42.421	42.320	147.7
06	42.233	42.380	199.2
07	42.417	42.360	131.3
08	42.475	42.480	101.0
09	42.521	42.465	99.7

JUN 12	Markets Closed		
13	42.400	42.425	105.0
14	42.415	42.420	116.5
15	42.465	42.535	63.5
16	42.611	42.595	102.0
JUN 19	42.649	42.655	93.5
20	42.672	42.675	142.6
21	42.693	42.830	86.0
22	42.907	42.870	128.0
23	42.879	42.845	76.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Interest rates edged downward in this week's Treasury auctions and the Bureau of Treasury made full awards. Yields on the 91-day T-bills rose 0.2 basis points to 8.911%. Yields on the 182-day T-bills declined 9.2 basis points to 10.045% and yields on the 364-day T-bills declined 2.0 basis points to 10.924%. The June 20 auction of ten-year Treasury bonds saw rates decline 12.5 basis points (from a month earlier) to 14.125%. A total of P5.4 billion in bids were submitted and all P3.0 billion of the bonds were sold.

The Finance Department announced that the planned flotation of P5 billion of "privatization" bonds will be delayed from June to August. Undersecretary Joel Bañares cited the need to develop a marketing plan for the bonds, which the government is targeting at retail investors.

The Philippines recently concluded issuance of a \$200 million yen-denominated "shibusai" loan. According to the Department of Finance, the loan was priced at 2.3%. Philippine dollar bonds continue to languish on international markets. Spreads over U.S. Treasuries now range from 450 basis points on bonds due in 2006 to over 600 basis points on long-dated bonds. BB+ rated Philippine bonds now trade at the level of BB- rated countries. Traders blame the market's reaction on political uncertainty, the situation in Mindanao and concerns that the deficit could balloon.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAY 15	8.690	9.900	10.963
MAY 22	8.975	10.375	11.423
MAY 29	8.968	(no sales)	11.396
JUN 05	8.908	10.282	11.211
JUN 13	8.909	10.137	10.944
JUN 19	8.911	10.045	10.924

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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MAY 18	11.0078	9.50 - 13.375
MAY 25	11.1516	10.00 - 13.750
JUN 01	11.1416	10.25 - 13.625
JUN 08	11.1228	10.00 - 13.625
JUN 14	11.1229	10.00 - 13.625
JUN 22	11.1379	10.00 - 13.625

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The only significant news this week to move the market was the weakening of the peso. Stocks also slipped as traders took profits earned on tech-related blue-ships last week. The 33-share Philippine Stock Index (PHISIX) was down from its June 16 close of 1569.95 to end the week at 1542.97.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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MAY 15	1517.09	1401
16	1507.98	1023
17	1534.05	1328
18	1521.36	539
19	1478.68	1162
MAY 22	1412.09	935
23	1404.67	1143
24	1418.79	1266
25	1426.62	1267
26	1427.26	2540
MAY 29	1482.77	1107
30	1470.07	746
31	1478.76	623
JUN 01	1470.53	902
02	1512.75	1135
JUN 05	1552.65	1136
06	1562.38	1222
07	1522.33	796
08	1537.13	598
09	1521.93	977
JUN 12	Markets Closed	
13	1522.15	950
14	1524.21	1468
15	1565.69	1200
16	1569.95	1225
JUN 19	1560.67	1001
20	1560.40	1121
21	1555.62	816
22	1545.90	1156
23	1542.97	966

Source: Philippine Stock Exchange

FISCAL UPDATE

Estimates through May showed the national government's fiscal deficit at P34.1 billion, P1.6 billion more than

the programmed level. Expenditures were P6 billion under the programmed amount, but the government missed its five-month revenue target by P7.5 billion. Tax collections were off by P1.2 billion because of the Bureau of Internal Revenue's (BIR) lower-than-projected performance. Non-tax revenues were short by an even wider margin, which mainly reflected delays under the government's privatization program.

Although the deficit as of May was not too far from the programmed ceiling, fiscal uncertainties remain. The government's P22 billion privatization goal for the year is likely unattainable, especially following the recent failed bidding for one of the major assets up for sale -- the national government's 30% stake in Philippine National Bank (see para. 12). Defense spending in Mindanao is adding further to fiscal pressures.

 NATIONAL GOVERNMENT FISCAL PERFORMANCE
 (In Billion Pesos)

	Program	Actual	Difference
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Revenues	220.6	213.1	(7.5)
Tax	196.2	194.6	(1.6)
BIR	160.3	156.7	(3.6)
Customs	34.1	36.1	2.0
Non-Tax	24.4	17.9	(6.5)
Privatization	9.2	1.0	(8.7)
Expenditures	253.2	247.2	(6.0)
Fiscal Surp/(Def)	(32.5)	(34.1)	(1.6)

 Source: Dept. of Finance

AID DONORS MEET WITH GOVERNMENT

Bilateral and multilateral aid donors to the Philippines held their "Consultative Group" meetings with senior Philippine government officials in Tagaytay City June 19-20. The four main sessions focussed on the current state of the economy and medium-term prospects; strategies to

reduce poverty; steps to improve governance and reduce corruption; and aid project implementation and pledges for future assistance. The consensus on the current state of the economy was that economic fundamentals are currently sound, but weak business confidence and the potential for significant fiscal imbalance threaten a nascent recovery. Donors noted progress on structural reforms and called for further efforts in this area. The government outlined its plans to reduce poverty by modernizing and reinvigorating agriculture in rural areas; donors welcomed the efforts. One representative, however, noted that studies showed rural poverty was best reduced by getting people out of agriculture.

With regard to improving governance and reducing corruption, the government presented broad plans to deal with these problems at many levels, plans which donors welcomed and encouraged prompt and vigorous implementation. The government acknowledged its slow uptake of assistance, and explained steps it was taking to improve project implementation; the government also outlined steps it would take with donors to ensure projects are better designed for faster implementation. Donors welcomed the efforts, and said that the government should especially focus on immediate implementation of assistance efforts in Mindanao. The pledging session recorded \$2.6 billion in new assistance for the Philippines from donors.

PNB PRIVATIZATION

The Economic Coordinating Council (ECC) reportedly approved the rebidding of the national government's 30% stake in Philippine National Bank (PNB) within 45 days. This would mark the second attempt to privatize the government shares after June 9's failed joint auction with Lucio Tan's 46% block. According to Department of Finance (DOF) Secretary and ECC Vice-Chair Jose Pardo, the government would like to fast-track PNB's privatization before its shares are diluted by majority stockholder Lucio Tan's planned capital call in the third quarter. Analysts estimate that the planned P10 billion capital call could dilute the government's holdings to between 15-20%.

Even officials privy to PNB's privatization reportedly feel that there may be few takers for the government's stake. Prospective buyers face the same dilution unless they subscribe to the subsequent capital hike. If the government is bent on unloading its holdings in the bank, it faces weak price prospects. PNB is currently trading at about P60 per share (below its P100 par value). DOF officials admitted that it would unrealistic to set an indicative floor price anywhere near the previous bidding's P160/share level.

LIQUIDITY FACILITY FOR INVESTMENT HOUSES

The Philippine Monetary Board (the Bangko Sentral's highest policymaking body) has approved the creation of a temporary rediscounting facility to assist investment houses suffering from a liquidity squeeze. The decision responded to an initiative by the Bankers Association of the Philippines (BAP) and the Investment Houses Association of the Philippines (IHAP) to help investment houses cope with heavy withdrawals triggered by recent scandals in the industry. Urban Bank's much-publicized closure, for example, was linked to the activities of its investment house subsidiary Urbancorp.

Under the BSP-approved scheme, an investment house deposits high-grade, long-term commercial papers (LTCP's) with a BAP member-bank. The BAP member bank then rediscounts the LTCP's with the BSP (at a rate one percentage point below the prevailing T-bill rate) and passes on the funds to the investment house. Applicable interest fees will be decided between the investment house and bank. BSP Governor Rafael Buenaventura said the liquidity arrangement would be available until the end of the year.

BANK NOTES

Traders Royal Bank (TRB): Bank of Commerce apparently thinks it can take over other banks on OPM (other people's money). Last week, we reported Bancommerce's proposal for Urban Bank depositors to convert their deposits to equity to finance its rehabilitation of Urban Bank. Now Bancommerce wants BSP to take on P1.7 billion

of "doubtful accounts" at TRB as part of its takeover. Bancommerce suggests BSP take the bad loans in exchange for Treasury bills. According to press reports the P1.7 billion in loans were to insiders -- directors, officers, shareholders and related interests in Philippine parlance.

PDIC Pays Out: The Philippine Deposit Insurance Corporation (PDIC) reported that it has paid out P3 billion to depositors in failed banks. Prime Savings Bank (a thrift bank) accounted for P1.3 billion of the payout because of what PDIC claimed was a massive program of splitting accounts before PDIC took possession of the bank. Splitting large accounts into multiple accounts -- each less than the P100,000 guaranteed by PDIC -- magnifies the cost of closing a failed bank. Other major payouts were P800 million for depositors in Orient Commercial Bank, P400 million for Urban Bank depositors and P500 million for Rural Bank of San Miguel depositors.

HUBBARD##